

Multi-Product Issues

ISDA's Energy and Developing Products Committee

North American
Energy Standards Board
Contracts Subcommittee

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January 28, 2003

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Summary

- ◆ Background
 - ISDA organization
 - Energy and Developing Products Committee
 - Multi-product issues
- ◆ ISDA Energy Agreement Bridge
- ◆ Power Annex
- ◆ Gas Annex

Background – ISDA and Energy Committee

- ◆ ISDA is the International Swaps and Derivatives Association
 - Members globally including major corporations, commercial banks, investment banks, funds, insurance companies
- ◆ Strong representation of energy companies
 - Producers, IPPs, merchant energy companies, exchanges
- ◆ Energy and Developing Products committee focuses on issues of importance to market participants

Background – Multiproduct Issues

- ◆ Energy Market Participants trade multiple products (swaps, options, forwards) on multiple commodities (power, natural gas, crude oil and products) under multiple agreements
- ◆ Efficient usage of credit lines is critical
- ◆ Minimizing actual loss in a default scenario is critical
- ◆ To achieve this, following are required:
 - cross-agreement default
 - cross-agreement netting
 - cross-agreement margining

ISDA Energy Agreement Bridge

- ◆ ISDA developed its Energy Agreement Bridge with the following goals:
 - enable parties to achieve objectives outlined above
 - integrate with existing documentation
 - be easy to implement
- ◆ 2002 ISDA Energy Agreement Bridge is available at www.isda.org, under the “Committee/Energy and Developing Products” file

ISDA Energy Agreement Bridge

◆ Operation

- Two/more documents: ISDA and other product master(s) (e.g., EEI), which is the “Bridged Agreement”
- Trigger
 - ISDA Event of Default plus Early Termination Date under ISDA
 - Bridged Agreement Event of Default plus Early Termination Date under Bridged Agreement

◆ Effect of Trigger Event

- Early termination of transactions under ISDA/Bridged Agreement
- Netting of ISDA Agreement amounts against Bridged Agreement amounts through ISDA Master netting provisions

Additional Considerations relating to Bridge

- ◆ ISDA Energy Agreement Bridge **does** provide the foundation for cross-product margining
 - Amendment can be made to ISDA Credit Support Annex to implement this
 - Otherwise, a single-purpose margin agreement may be entered into based on Bridge
- ◆ ISDA is soliciting affirmation that Energy Agreement Bridge will be covered by netting legal opinions

Power Annex

- ✦ ISDA and EEI are working together to develop a Power Annex that will allow parties to book physical power transactions under the ISDA Master Agreement
- ✦ Power Annex will isolate those terms that are specific to physical delivery market, as formulated by EEI
- ✦ Power Annex will promote cross-product netting without necessitating Bridge, Master Netting Agreement or other documentation

Gas Annex

- ✦ ISDA, through Energy and Developing products committee, seeks to form a collaboration with NAESB to develop Gas Annex
- ✦ Gas Annex would achieve for natural gas market the objectives that ISDA/EEI are achieving for power market with Power Annex